

Message Text

UNCLASSIFIED

PAGE 01 TOKYO 02277 01 OF 03 210816Z

12

ACTION EB-07

INFO OCT-01 EUR-12 EA-10 ISO-00 CIAE-00 DODE-00 NSAE-00

NSCE-00 SSO-00 USIE-00 INRE-00 FEA-01 ERDA-07 AID-05

CEA-01 CIEP-02 COME-00 FPC-01 H-02 INR-07 INT-05 L-02

NSC-05 OMB-01 PM-03 SAM-01 OES-05 SP-02 SS-15 STR-04

TRSE-00 FRB-01 IO-10 NEA-09 OPIC-06 LAB-04 SIL-01

AGR-10 PA-02 PRS-01 /143 W

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O 210715Z FEB 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC IMMEDIATE 8160

INFO USMISSION OECD PARIS IMMEDIATE

UNCLAS SECTION 1 OF 3 TOKYO 2277/1

E.O. 11652: N/A

TAGS: ENRG, JA

SUBJECT: TEXT OF CULBERT SPEECH TO AMERICA-JAPAN SOCIETY, FEB.
18, 1975

REF: SHERMAN-SHOESMITH TELCON

1. AS REQUESTED, THERE FOLLOWS TEXT OF SPEECH GIVEN BY E/C
MIN CULBERT BEFORE AMERICA-JAPAN SOCIETY, FEBRUARY 18.
BEGING TEXT.

IMPLICATIONS OF THE OIL PRICE PROBLEM

FOR US-JAPAN ECONOMIC COOPERATION

"IT IHAS BECOME FASHIONABLE RECENTLY FOR SPEAKERS ON
US-JAPAN ECONOMIC RELATONS TO REFER TO THE ABSENCE OF
MAJOR BILATERAL PROBLEMS BETWEEN OUR TWO COUNTRIES AND
THEN MENTION GLOBAL PROBLEMS LIKE FOOD, ENERGY, OR MONETARY
AFFAIRS AS THE COMELLING ISSUES FOR THE COMING YEARS. THIS
IS THEN USUALLY FOLLOWED BY THE OBSERVATION THAT THESE
VAST PROBLEMS ARE UNDER ACTIVE DISCUSSION OR NEGOTIATION

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PAGE 02 TOKYO 02277 01 OF 03 210816Z

IN WORLD FORUMS BECAUSE THEY TRANSCEND THE ABILITY OF ANY

NATION OR GROUP OF NATIONS TO SOLVE ALONE.

"THESE STATEMENTS ARE TRUE BUT I'VE OFTEN WONDERED IF AUDIENCES AREN'T THEREBY LULLED INTO AN UNJUSTIFIED SENSE OF RELIEF (QTE WELL, AT LEAST WE DON'T HAVE TO WORRY ABOUT THAT: UNQTE.) ON THE OTHER HAND, SOME LISTENERS MAY BECOME UNDULY APPREHENSIVE BECAUSE OF THE SEEMING OBSCURITY OF THE ISSUES INVOLVED AND SKEPTICISM ABOUT THE ABILITY OF INTERNATIONAL BODIES TO RESOLVE IMPORTANT CONFLICTS OF NATIONAL INTEREST.

"MY PURPOSE TODAY IS NEITHER TO ASSURE YOU THAT ALL'S WELL NOR IS IT TO ALARM YOU. INSTEAD, I PROPOSE TO QTE TELL IT LIKE IT IS UNQTE, OR AT LEAST HOW I SEE IT, WITH RESPECT TO THE OIL PRICE PROBLEM AND SOME OF THE IMPLICATIONS FOR US-JAPAN ECONOMIC COOPERATION AS THE WORLD GROPE FOR A SOLUTION.

"THE OIL PRICE PROBLEM EPI TOMIZES, IN A WAY, THE NEW ERA OF INTERNATIONAL AFFAIRS WHICH HAS BEEN BUILDING UP RATHER SLOWLY AND UNOBTRUSIVELY FOR MANY YEARS BUT WHICH HAS BURST UPON THE WORLD'S CONSCIOUSNESS ONLY IN THE PAST 15 MONTHS WITH THE APPARENT SPEED OF A LOCOMOTIVE WITH NO ENGINEER IN THE CONTROL CAB. PERHAPS A MORE APPROPRIATE ANALOGY WOULD BE TO SAY THE CONTROL CAB IS FULL OF ENGINEERS ARGUING ABOUT THE PROPER THING TO DO. SOME WANT TO SLOW DOWN, OTHERS WANT TO SPEED UP, SOME WANT TO THROW THE ENGINE IN REVERSE, AND SOME WANT TO BLOW IT UP. AND NO ONE SEEMS TO BE CLEARLY IN CHARGE. THE OIL PRICE PROBLEM AFFECTS THE LIVELIHOOD OF PRACTICALLY EVERY PERSON ON EARTH EVEN IF SOME ARE MORE DIRECTLY AFFECTED THAN OTHERS. JAPANESE AND AMERICANS ARE CLEARLY AMONG THE MOST DIRECTLY AFFECTED. MEASURING THE IMPACT WITH ANY PRECISION, HOWEVER, IS EXCEEDINGLY DIFFICULT BECAUSE OIL PRICES IMPINGE ON A VARIETY OF RATHER OBSCURE ECONOMIC CONCEPTS OR PHENOMENA, SOME OF WHICH ARE PERHAPS INCOMPREHENSIVE TO THE AVERAGE CITIZEN AND MANY OF WHICH ARE IMPERFECTLY UNDERSTOOD EVEN BY GENUINE EXPERTS. TO MAKE MATTERS WORSE,

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PAGE 03 TOKYO 02277 01 OF 03 210816Z

EACH OF THE SEPARATE PHENOMENA ACT AND REACT ON ONE ANOTHER IN SUBTLE WAYS THAT DEFY QUANTIFICATION WITH ANY DEGREE OF ACCURACY.

THE MOST WIDELY RECOGNIZED PHENOMENON IS INFLATION. OIL PRICES ARE NOT THE SOLE CAUSE OF THIS EVIL BUT THEY CLEARLY EXACERBATE IT IN WAYS THAT CAN BE MEASURED. THE UNITED STATES ESTIMATES THAT NEARLY

HALF OF THE INCREASE IN THE US WHOLESALE PRICE INDEX IN 1974 CAN BE ATTRIBUTED DIRECTLY TO INCREASED COSTS OF OIL IMPORTS. BUT INFLATION IN TURN AFFECTS THE HEALTH AND VIGOR OF THE ECONOMY AS A WHOLE BY REDUCING, AMONG OTHER THINGS, INVESTMENT AND CONSUMER SPENDING WHICH IN TURN QUICKLY HAS AN IMPACT ON EMPLOYMENT. THE UNITED STATES ESTIMATES THAT THE LOSS OF ABOUT A HALF MILLION AMERICAN JOBS AND OVER 1 PERCENT OF OUR TOTAL NATIONAL OUTPUT CAN BE ATTRIBUTED TO THE SUDDEN QUADRUPLING OF OIL PRICES.

THE BALANCE OF PAYMENTS EFFECTS OF CURRENT OIL PRICES HAVE BEEN WIDELY PUBLICIZED BUT I SUSPECT A VERY LARGE MAJORITY OF THE CITIZENRY OF EVEN SOPHISTICATED COUNTRIES LIKE JAPAN AND THE UNITED STATES DO NOT REALLY KNOW WHAT THIS ABSTRACT CONCEPT REALLY MEANS TO THEIR DAILY LIVES. IT BEARS DIRECTLY ON EXCHANGE RATES, OR IN OTHER WORDS HOW HARD INDIVIDUALS HAVE TO WORK TO OBTAIN THE SAME QUANTITY OF GOODS FROM ABROAD. IT BEARS DIRECTLY ON THE INTERNATIONAL INDEBTEDNESS OF NATIONS, OR IN SIMPLE TERMS HOW HARD INDIVIDUALS WILL HAVE TO WORK IN FUTURE YEARS TO PAY OFF THE PRINCIPAL AND INTEREST ON THESE DEBTS. AND IT BEARS DIRECTLY ON THE ABILITY OF COUNTRIES TO BORROW ABROAD IN ORDER TO KEEP THEIR ECONOMIES FUNCTIONING SINCE BORROWING IS THE ONLY WAY TO ACCOMMODATE A SITUATION WHERE VIRTUALLY EVERYONE OTHER THAN THE OPEC COUNTRIES IS RUNNING DEFICITS OF UNPRECEDENTED SIZE.

FINALLY -- FOR PURPOSES OF THESE REMARKS EVEN THOUGH THIS IS NOT A COMPLETE CATALOG OF ALL THE EFFECTS OF CURRENT OIL PRICES -- THERE IS THE PHENOMENON OF THE TRANSFER OF REAL ECONOMIC POWER FROM THE INDUSTRIALIZED UNCLASSIFIED

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PAGE 04 TOKYO 02277 01 OF 03 210816Z

WORLD TO OPEC COUNTRIES. IT IS A COMMENTARY OF SORTS ON THE CONFUSION AND UNCERTAINTY IN INTERNATIONAL ECONOMIC AFFAIRS TODAY TO NOTE THE ENORMOUS DISCREPANCY BETWEEN ESTIMATE OF THE OPEC SURPLUS -- AND BY SURPLUS I MEAN NOT THEIR TOTAL EARNINGS BUT THE ACCUMULATION OF CLAIMS ON WORLD RESOURCES OVER AND ABOVE THEIR EXPENDITURES FOR A RAPIDLY GROWING VOLUME OF IMPORTS. THE WORLD BANK HAS ESTIMATED THE OPEC SURPLUS WILL BE \$650 BILLION HODGSON

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PAGE 01 TOKYO 02277 02 OF 03 210829Z

11

ACTION EB-07

INFO OCT-01 EUR-12 EA-10 ISO-00 CIAE-00 DODE-00 NSAE-00

NSCE-00 SSO-00 USIE-00 INRE-00 FEA-01 ERDA-07 AID-05

CEA-01 CIEP-02 COME-00 FPC-01 H-02 INR-07 INT-05 L-02

NSC-05 OMB-01 PM-03 SAM-01 OES-05 SP-02 SS-15 STR-04

TRSE-00 FRB-01 IO-10 NEA-09 OPIC-06 LAB-04 SIL-01

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC IMMEDIATE 8161

INFO USMISSION OECD PARIS IMMEDIATE

UNCLAS SECTION 2 OF 3 TOKYO 2277

BY THE END OF 1980 AND \$1.2 TRILLION BY THE END OF 1985. THE OECD ESTIMATES THE OPEC SURPLUS WILL BE \$425 BILLION BY 1980. A RECENT ANALYSIS BY THE MORGAN GUARANTEE TRUST COMPANY SUGGESTS THESE FIGURES UNDERSTIMATE THE IMPORT CAPACITY OF OPEC COUNTRIES AND ESTIMATES THE SURPLUS WILL PEAK AT ONLY (*) \$250 BILLION IN 1978. THE US SECRETARY OF THE TREASURY A FEW DAYS AGO SAID HE BELIEVED THE OPEC SURPLUS WOULD BE ABOUT \$300 BILLION BY 1980.

FIGURES OF THIS KIND ARE DIFFICULT TO CONCEPTUALIZE. PERHAPS A BETTER GRASP OF WHAT THEY MEAN CAN BE CONVEYED BY LOOKING AT THE UNITED STATES NET FOREIGN ASSET POSITION. AFTER NEARLY A CENTURY AS AN INDUSTRIALIZED COUNTRY AND WITH SEVERAL POST-WORLD WAR II DECADES OF ACTIVE PROMOTION OF FOREIGN INVESTMENT BY US-OWNED MULTINATIONAL CORPORATIONS, THE US HAS ACCUMULATED NET FOREIGN ASSETS TOTALLING JUST OVER \$60 BILLION. OPEC COUNTRIES ACQUIRED \$60 BILLION OF SURPLUS EARNINGS IN

UNCLASSIFIED

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PAGE 02 TOKYO 02277 02 OF 03 210829Z

1974 ALONE. THE LONDON ECONOMIST HAS MADE SOME INTERESTING CALCULATIONS TO MAKE THE OPEC SURPLUS ACCUMULATION MORE COMPREHENSIBLE. SURPLUS FUNDS ARE BEING ACCUMULATED BY OPEC COUNTRIES AT ABOUT \$7 MILLION PER HOUR. THE ACCUMULATION AT CURRENT OIL PRICES WOULD BE ENOUGH TO BUY THE BANK OF AMERICA IN 10 DAYS, IBM IN 143 DAYS, ALL THE GOLD IN ALL COUNTRIES' CENTRAL BANKS IN 3.2 YEARS, THE ENTIRE NEW YORK STOCK EXCHANGE IN 9.2 YEARS AND ALL COMPANIES IN ALL OF THE WORLD'S MAJOR STOCK MARKETS IN 15.6 YEARS. NEITHER THE ECONOMIST NOR I NOR ANYBODY ELSE SO FAR AS I KNOW EXPECTS THIS TO ACTUALLY HAPPEN BUT CALCULATIONS OF THIS SORT DRAMATIZE THE EXTRAORDINARY SIZE OF THE ECONOMIC POWER SHIFTING QUICKLY INTO THE HANDS OF A VERY SMALL NUMBER OF COUNTRIES AND DOES RAISE THE QUESTION SO VITAL TO ALL OF US OF WHAT THEY ARE GOING TO DO WITH THIS WEALTH.

THE POINTS I'VE TOUCHED ON SO FAR SHOULD BE ENOUGH TO EXPLAIN WHY THE US, JAPAN, AND OTHER INDUSTRIALIZED FRIENDS CANNOT SIMPLY SIT IDLY BY AND HOPE THAT QTE SOMETHING WILL TURN UP UNQTE TO SAVE THE SITUATION. TO HOPE THAT THE OPEC COUNTRIES WILL VOLUNTARILY REDUCE OIL PRICES TO TOLERABLE LEVELS SEEMS ILLUSORY. THEIR RESPONSE TO THE ENORMOUS FINANCIAL SURPLUS ACCUMULATION OF 1974 ALONE AND THE CLEAR PROSPECT OF MORE TO COME HAS BEEN TO CUT BACK OIL PRODUCTION BY 25 PERCENT IN ORDER TO MAINTAIN CURRENT PRICES.

AND WE ARE NOT SITTING IDLY BY. THE US, JAPAN AND THE OTHER NATIONS PARTICIPATING IN THE INTERNATIONAL ENERGY AGENCY ARE VIGOROUSLY PURSUING THE MOST EXTENSIVE PROGRAM OF JOINT ACTION AND MUTUAL SUPPORT IN WORLD HISTORY. WE ARE PROCEEDING TOGETHER ON MANY FRONTS:

FIRST, ACTING TO COPE WITH A POSSIBLE EMERGENCY SUCH AS A RESUMPTION OF THE ARAB OIL EMBARGO. STOCKPILE TARGETS HAVE BEEN SET AND AGREEMENT REACHED ON SHARING OF AVAILABLE SUPPLIES. WE ARE ALREADY INVULNERABLE TO BEING PICKED OFF ONE BY ONE BY THE THREAT OR ACTUALITY OF AN EMBARGO OF SHORT DURATION. IT WILL BE VERY COSTLY TO BUILD UP STOCKPILES TO

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 TOKYO 02277 02 OF 03 210829Z

HIGHER TARGET LEVELS TO DECREASE OUR VULNERABILITY TO A LONGER INTERRUPTION OF OIL SUPPLIES BUT THE POLITICAL DECISION HAS ALREADY BEEN MADE TO DO SO, AND IN RECORD TIME CONSIDERING THE COSTS INVOLVED.

SECONDLY, WE HAVE AGREED ON A PROGRAM OF OIL CONSUMPTION RESTRAINTS IN THE CONVICTION THAT UNLESS

WE REVERSE THE TREND TOWARD INCREASED RELIANCE ON OPEC OIL THERE IS NO HOPE OF MAINTAINING CONTROL OVER OUR OWN ECONOMIC AND POLITICAL DESTINIES. OIL CONSUMPTION RESTRAINTS WILL ALSO HELP CREATE THE OBJECTIVE ECONOMIC CONDITIONS TO JUSTIFY A LOWERING OF OIL PRICES. THE COUNTRIES PARTICIPATING IN THE IEA HAVE JOINTLY AGREED TO REDUCE IMPORTS BY 2 MILLION BARRELS PER DAY BY THE END OF 1975. THE US ALONE WILL BE RESPONSIBLE FOR HALF OF THAT FIGURE. CUT-BACK OBJECTIVES FOR 1976 AND 1977 WILL BE DEVELOPED BY THE MIDDLE OF THIS YEAR.

THIRDLY, WE HAVE AGREED ON A MUTUAL SUPPORT MECHANISM TO ENSURE AGAINST THE FINANCIAL COLLAPSE OF INDUSTRIALIZED COUNTRIES IF THEY ARE UNABLE TO SECURE FINANCING FOR OIL IMPORTS THROUGH OTHER REGULAR CHANNELS.

FOURTHLY, WE ARE BEGINNING TO EXPLORE THE MOST PRACTICABLE WAY TO COOPERATE IN THE DEVELOPMENT OF NEW ENERGY SUPPLIES. THIS IS THE MOST COMPLEX AND EXPENSIVE PROGRAM CURRENTLY AWAITING FIRM DECISION AND I'LL HAVE MORE TO SAY ON THIS IN A MOMENT AS IT BEARS MOST DIRECTLY ON US-JAPAN COOPERATION.

FINALLY, WE ARE JOINTLY LAYING THE ESSENTIAL GROUNDWORK FOR THE OPENING OF A MEANINGFUL DIALOGUE BETWEEN PRODUCERS AND CONSUMERS. A PREPARATORY COMMITTEE MEETING WITH OIL PRODUCERS MAY BE HELD BEFORE THE END OF NEXT MONTH IF DECISIONS MUTUALLY ACCEPTABLE TO IEA PARTICIPANTS CAN BE REACHED ON THE KEY QUESTION OF ACCELERATED DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES.

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PAGE 04 TOKYO 02277 02 OF 03 210829Z

NOW THE US AND JAPAN ARE NOT SIMPLY TWO AMONG MANY IN THE IEA. TOGETHER WE ACCOUNT FOR OVER HALF THE TOTAL GNP OF IEA MEMBERS. WE ARE THE TWO LARGEST OIL IMPORTERS IN THE WORLD. BY WAY OF CONTRAST, WHICH ALSO UNDERLINES OUR RESPECTIVE VITAL INTERESTS IN THE OUTCOME OF THIS ENTIRE VENTURE, THE US HAS THE LARGEST CURRENT AND PROSPECTIVE ALTERNATIVE ENERGY CAPABILITIES AND JAPAN THE LEAST.

"THIS LATTER SITUATION HAS LED TO SOME SUGGESTIONS IN THE JAPANESE PRESS THAT THE PROPOSALS THE US HAS PUT FORWARD WILL BENEFIT THE US MUCH MORE THAN JAPAN OR OTHERS. LET ME TRY TO ANALYZE SOME OF THE COSTS AND BENEFITS OF THE US APPROACH.

"THE INDUSTRIALIZED COUNTRIES AS A GROUP HAVE
REALLY GREAT UNEXPLOITED ENERGY RESOURCES BUT THEY ARE
ALL RELATIVELY MORE EXPENSIVE THAN MIDDLE EAST OIL
WHICH COST ONLY ABOUT 25 CENTS A BARRELL TO PRODUCE.
CONVENTIONAL NUCLEAR POWER IS AVAILABLE IN EVERY COUNTRY
HODGSON

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PAGE 01 TOKYO 02277 03 OF 03 210842Z

11

ACTION EB-07

INFO OCT-01 EUR-12 EA-10 ISO-00 CIAE-00 DODE-00 NSAE-00

NSCE-00 SSO-00 USIE-00 INRE-00 FEA-01 ERDA-07 AID-05

CEA-01 CIEP-02 COME-00 FPC-01 H-02 INR-07 INT-05 L-02

NSC-05 OMB-01 PM-03 SAM-01 OES-05 SP-02 SS-15 STR-04

TRSE-00 FRB-01 IO-10 NEA-09 OPIC-06 LAB-04 SIL-01

AGR-10 PA-02 PRS-01 /143 W

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FM AMEMBASSY TOKYO

TO SECSTATE WAEHDC IMMEDIATE 8162

INFO USMISSION OECD PARIS IMMEDIATE

UNCLAS SECTION 3 OF 3 TOKYO 2277

AND AT THE PRESENT TIME IT CAN BE PRICED ROUGHLY IN THE
\$5 TO \$7 RANGE IN TERMS EQUIVALENT TO A BARREL OF OIL.
NORTH SEA OIL, ALASKAN OIL, COAL IN MANY COUNTRIES CAN
BECOME AVAILABLE IN ABOUT THE SAME PRICE RANGE. ON THE
OTHER HAND, TAR SANDS, OIL SHALE, AND COAL GASIFICATION
CAN BECOME AVAILABLE ONLY AT SOMEWHAT HIGHER PRICES,
PERHAPS \$10 OR SLIGHTLY MORE. AND THE EXOTIC FUELS SUCH
AS SOLAR ENERGY AND BREEDER REACTORS ARE ON A COST BASIS
THAT IS STILL IMPOSSIBLE TO CALCULATE ACCURATELY. NOW
THESE RESOURCES ARE DISTRIBUTED UNEQUALLY AMONG THE
CONSUMING COUNTRIES. YET ALL CONSUMERS HAVE A FUNDAMENTAL
INTEREST IN THE RATE AT WHICH THEY ARE EXPLOITED.

THOSE COUNTRIES THAT HAVE THE LARGEST ENERGY OPPORTUNITY CAN BECOME MORE SECURE BY EXPLOITING THEM, DIMINISHING OR ELIMINATING THEIR DEPENDENCE, BUT THEY DO SO AT THE COST OF DIVERTING VERY LARGE RESOURCES FROM OTHER ECONOMIC USES. THOSE COUNTRIES THAT HAVE RELATIVELY FEW ENERGY OPPORTUNITIES CAN BENEFIT BY THE REDUCTION OF OIL CONSUMPTION IN OTHER CONSUMER COUNTRIES MADE UNCLASSIFIED

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PAGE 02 TOKYO 02277 03 OF 03 210842Z

POSSIBLE BY THE DEVELOPMENT OF ALTERNATIVE SOURCES BECAUSE EACH BARREL SAVED CHANGES THE MARKET BALANCE FOR THE CONSUMERS AS A WHOLE AND CONTRIBUTES TOWARD A SITUATION IN WHICH THE PRICE CAN MOVE DOWNWARD. THUS CONSUMERS WITH LIMITED ENERGY OPPORTUNITIES WANT TO BE SURE THAT THOSE WITH VERY LARGE ENERGY OPPORTUNITIES EXPLOIT THEM FULLY. WHAT THIS MEANS IS THAT WE NEED A CONCERTED POLICY ON THE RATE ON WHICH THESE ALTERNATIVE SOURCES ARE TO BE DEVELOPED WITHIN THE CONSUMING WORLD. AND THIS IS THE FIRST MEANING OF SECRETARY KISSINGER'S PROPOSALS WHICH CALL FOR EITHER A COMMON TARIFF AROUND THE IEA COUNTRIES OR A COMMON FLOOR PRICE AS WELL AS HIS PROPOSAL FOR A SYNTHETIC FUELS CONSORTIUM INTO WHICH MEMBERS OF THE INTERNATIONAL ENERGY AGENCY COULD BUY INTO EACH OTHERS' NATIONAL PROGRAMS AND FOR A CONSORTIUM FOR LARGE SCALE POOLING OF NATIONAL RESEARCH AND DEVELOPMENT EFFORTS.

"THERE ARE, I THINK, DISTINCT ADVANTAGES FOR JAPAN IN COOPERATING WITH THE US AND OTHER IEA MEMBERS ALONG THESE LINES. FIRST, THERE WOULD BE IMMENSELY IMPROVED SECURITY OF SUPPLY, A MATTER OF CRUCIAL IMPORTANCE TO JAPAN IN PARTICULAR. THERE WOULD BE BALANCE OF PAYMENTS BENEFITS IN REDUCING AND ULTIMATELY ELIMINATING THE OPEC SURPLUS BECAUSE IT IS THE SIZE OF THAT OVERHANDING SURPLUS WHICH THREATENS TO DESTABILIZE THE WHOLE WORLD FINANCIAL AND INVESTMENT SYSTEM. THERE WOULD BE TAX BENEFITS WITHOUT RESTIMULATING EXCESSIVE CONSUMPTION OF ENERGY IF WE CAN REACH AGREEMENT ON ONE OR MORE OF THE VARIOUS ALTERNATIVES THAT HAVE BEEN PUT FORWARD TO ATTRACT THE NECESSARY NEW INVESTMENT IN ALTERNATIVE ENERGY SOURCES WITH A GUARANTEE AGAINST BEING UNDERMINED BY A SUDDEN UNILATERAL OPEC PRICE DECISION.

"THE SECOND OBJECTIVE OF THE PROPOSALS THAT SECRETARY KISSINGER MADE IS TO DEFINE A BASIS FOR REACHING A LONG-TERM RELATIONSHIP OF STABILITY WITH THE PRODUCER. CLEARLY THE PRODUCERS MUST REALIZE THAT PRESENT PRICES AND THE PRESENT VULNERABILITY OF THE CONSUMERS ARE UNSUSTAINABLY HIGH. CLEARLY ALSO, THE

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PAGE 03 TOKYO 02277 03 OF 03 210842Z

CONSUMERS MUST ACCEPT THAT THE ERA OF \$2 AND \$3 OIL IS GONE FOREVER. WE HAVE AN OPPORTUNITY TO EXPLORE WHETHER THERE ISN'T AN EQUILIBRIUM PRICE PRODUCERS AND CONSUMERS COULD AGREE ON. IN RETURN FOR AN ASSURANCE OF SUPPLY AND AN IMMEDIATE PRICE REDUCTION, CONSUMERS MIGHT BE WILLING TO GUARANTEE A CERTAIN PRICE, PERHAPS RELATED TO THE PRICE AT WHICH THEY BRING IN THEIR OWN ENERGY RESOURCE FOR A CERTAIN TIME.

"IT IS POSSIBLE THAT SOME MIGHT THINK THERE IS A WAY FOR JAPAN AND OTHER ENERGY-POOR INDUSTRIALIZED

COUNTRIES CONSUMERS TO AVOID BEING DRAWN INTO AN EXPENSIVE UNDERTAKING OF THIS KIND. SOME MIGHT THINK THERE IS A PROSPECT OF OBTAINING MUCH LOWER COST OIL FROM OPEC COUNTRIES IF THE US AND OTHERS DEVELOP SUBSTANTIAL NEW RESOURCES TO THE EXTENT THAT OPEC OIL BECOMES A GLUT ON THE MARKET. I HONESTLY DO NOT THINK THIS IS IN THE CARDS. IF SOME YEARS FROM NOW IT TURNS OUT THAT THE US AND WESTERN EUROPE ARE PAYING SOMETHING LIKE \$8 OR \$9 FOR THE ENERGY EQUIVALENT OF A BARREL OF OIL AS A RESULT OF A JOINT INTERNATIONAL EFFORT TO ELIMINATE THEIR DEPENDENCE ON OPEC OIL, AND IF AT THAT POINT SOME OPEC COUNTRY WERE TO OFFER OIL TO JAPAN AT SAY \$5 PER BARREL, I THINK EITHER ONE OF TWO THINGS (OR POSSIBLY BOTH) WOULD OCCUR. IF FLOATING EXCHANGE RATES ARE STILL IN EFFECT, THE YEN WOULD HAVE TO APPRECIATE TO ELIMINATE THE VERY LARGE TRADE SURPLUS JAPAN WOULD GENERATE BY VIRTUE OF ITS ACCESS TO MUCH CHEAPER ENERGY OR, IF THIS DID NOT HAPPEN OR HAPPEN QUICKLY ENOUGH, I THINK INDUSTRIALIZED-COUNTRY IMPORTERS OF JAPANESE GOODS WOULD HAVE TO PROTECT THEMSELVES AGAINST IMPORTS UNDERPRICED DUE TO SUBSTANTIALLY DIFFERENT ENERGY COSTS. THE SCENARIO IS, IN MY OPINION, AN UNLIKELY ONE IN ANY EVENT BECAUSE THERE WOULD BE LITTLE INCENTIVE FOR ANY OIL PRODUCER TO OFFER OIL AT PRICES GREATLY BELOW THE COST OF ALTERNATIVE ENERGY. THE US SUGGESTION THAT PRODUCERS AND CONSUMERS NEED TO CONSIDER AN EQUILIBRIUM PRICE IS DESIGNED, IN PART, TO AVOID A SITUATION OF WIDELY DIFFERENT COSTS OF ENERGY

UNCLASSIFIED

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PAGE 04 TOKYO 02277 03 OF 03 210842Z

WITH ALL OF THE POTENTIAL FOR ACRIMONY SUCH A SITUATION

WOULD ENTAIL.

"FINALLY, LET ME STRESS THAT THE PROPOSALS
SECRETARY KISSINGER HAS PUT FORWARD ARE NOT ADVANCED,
AS SOME HAVE SUGGESTED, TO DELAY A PRODUCER-CONSUMER
MEETING BUT REALLY TO MAKE IT POSSIBLE AND FRUITFUL.
THEY ARE CERTAINLY NOT TO CONFRONT THE PRODUCERS OR

THREATEN THEM BUT RATHER TO DEFINE A REALISTIC LONG--
TERM BASIS FOR RELATIONS BETWEEN PRODUCERS AND CON-
SUMERS IN WHICH NEITHER ONE IS AT THE MERCY OF THE
OTHER.

"THE US AND JAPAN ARE INEXTRICABLY BOUND UP IN
THIS EFFORT TO WORK A WAY OUT OF A SERIES OF INTER-
RELATED PHENOMENA EXEMPLIFIED BY THE OIL PRICE PROBLEM.
THE HABITS OF COOPERATION, MUTUAL TRUST AND CONFIDENCE
BUILT UP BETWEEN OUR TWO COUNTRIES OVER THE PAST TWO
DECADES WILL PLAY A VITAL ROLE IN ENSURING THAT WE
SUCCEED. AND SUCCEED WE MUST BECAUSE, AS BENJAMIN

FRANKLIN SAID IN A DIFFERENT CONTEXT BUT ONE I THINK
VERY APT TO THE PRESENT SITUATION QTE WE MUST ALL HANG
TOGETHER OR ASSUREDLY WE SHALL ALL HANG SEPARATELY UNQUOTE
END TEXT

2. USIA HAS TRANSMITTED REQUEST FROM USIS BONN FOR COPY
OF TEXT, WHICH WE HAVE POUCHED. DEPARTMENT MAY ALSO
WISH REPEAT THIS MESSAGE TO AMEMBASSY BONN.
HODGSON

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Message Attributes

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Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
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Executive Order: N/A
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